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USL
UNITED STATES LEAGUE of SAVINGS INSTITUTIONS 111 EAST WACKER DR. / CHICAGO, ILLINOIS 60601 / TEL. (312) 644-3100

EFT: WHAT'S IN STORE FOR TOMORROW?

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I. Electronic Banking Systems Reach a Crossroad

A. Household EFT transactions are minimal

1. Average household performs about 30 noncash transactions per month

2. 91% of the average household's checking account activity is paper-based

3. Transaction data

Average Transactions per Month per Household

Transaction Type	Number
Checks written	24.22
Deposit of cash or check	3.26
Bank credit card purchases	1.32
Direct deposit	0.58
Preauthorized teller machine	0.42
Automated teller machine	0.28
Telephone bill payments	0.04
Total	30.12

Source: Electronic Banking, Inc., Atlanta

B. Government's volume of direct deposits overshadows results of the ACH

1. Federal Reserve estimates that more than 96% of payroll deposits are made by check

2. Weaning customers away from human tellers and paper checks has proved difficult

3. Largest single user of the ACH is the federal government

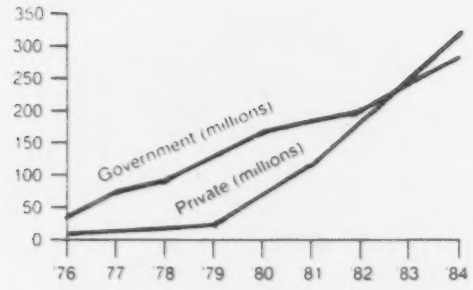
-- Government represents 40% of total ACH volume

-- 33% of Social Security payments are direct deposited

4. Large insurance companies dominate ACH private volume

5. ACH growth

ACH Volume



Source: Federal Reserve Bank of Atlanta

6. ACH volume by the two major sectors: 1984

   -- Private sector: 341 million entries

   -- Public sector : 258 million entries

II. Reviewing ATM results

A. ATMs represent the "pillar" of electronic banking success

B. ATMs have become a consumer banking fixture

   1. More than 60,000 ATMs are installed

   2. Almost 7,300 financial institutions offer ATM access

3. ATM shipments have surpassed expectations

ATM Shipments

Year	Annual	Cumulative*	Net Installed
1973	935	1,935	1,935
1974	965	2,900	2,900
1975	1,156	4,056	4,056
1976	1,249	5,305	5,305
1977	2,444	7,749	7,749
1978	2,001	9,750	9,750
1979	4,680	14,430	13,800
1980	5,428	19,858	18,500
1981	8,456	28,314	25,790
1982	11,035	39,349	35,721
1983	13,983	53,332	48,118
1984	13,300 est.	66,632 est.	59,300 est.

*Starts with a base of 1,000

Source: Linda Fenner Zimmer, consultant

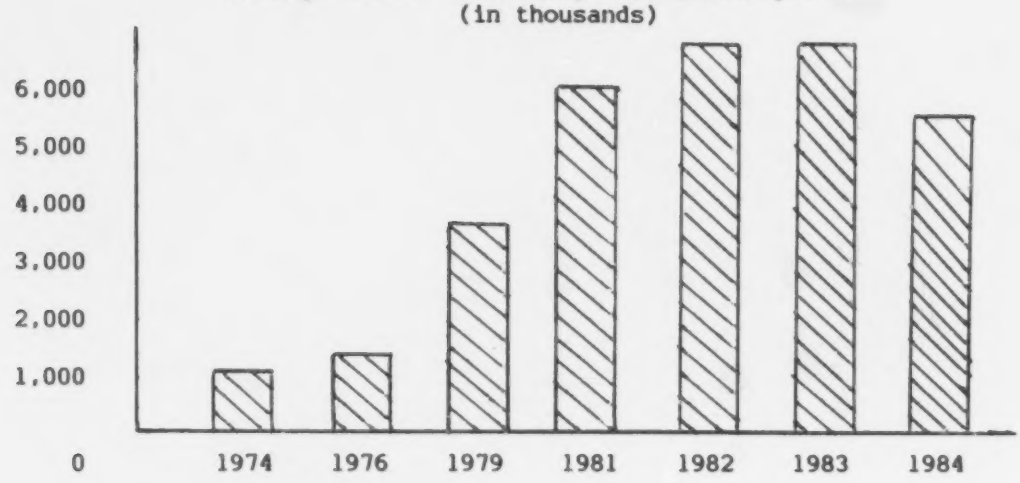
4. Despite banner year for ATM shipments, ATM annual growth for 1984 turns negative

C. High ATM growth rate in the 80s lowers transaction volume per ATM

1. More than half of the ATMs--34,000--were shipped in the last three years

2. Machines were shipped faster than transaction volume increased

Average Number of Monthly Transaction per ATM
(in thousands)



Sources: Federal Reserve Bank
Linda Fenner Zimmer, consultant

D. U.S. League study finds savings institutions have installed few customer-operated terminals (e.g., ATMs)

1. League survey results

Customer-operated Terminals Installed
by Savings Institutions

Number of Devices	On-premises No. of Respondents	%	Off-premises No. of Respondents	%
0	316	73%	396	94%
1 - 2	60	14	17	4
3 -10	33	8	5	< 1
11-20	7	2	1	< 1
21-50	9	2	1	< 1
> 50	1	1	-	-

2. Observations about the projected results of the study

   -- Approximately 800 savings institutions have installed on-premises customer-operated terminals

   -- Almost 30 devices installed per 100 savings institution offices

   -- Approximately 200 savings institutions have installed off-premises units

   -- Savings institutions have not invested heavily in ATMs

E. In contrast, many savings institutions have joined third-party networks

   1. Sharing enables savings institutions to bypass capital-intensive investment in ATMs

   2. Top 100 ATM shared networks provide ATM access to about 28% of the savings institutions surveyed

ATM Sharing

Type of Financial Institution	No. of Participants
Commercial banks	5,600
Savings institutions	900
Credit unions	775

Source: Bank Network News

III. Consumer's attraction to ATMs stabilizes

A. ATM appeal stagnates

Appeal of ATMs

Response	1985	1984	1983	1982
Very appealing	31.0%	32.8%	30.0%	30.8%
Somewhat appealing	21.3	20.4	21.2	21.1
Somewhat unappealing	9.6	11.7	14.7	18.2
Very unappealing	34.5	31.3	28.4	25.0
Not sure/no answer	3.6	3.3	5.6	4.8

Source: Unidex 1985

B. ATM usage drops

1. One out of every three customers uses an ATM, according to a Unidex study conducted in 1985

2. Usage has significantly increased since 1976, but annual growth in 1985 is less than the previous year

ATM Usage

Year	% of Households with ATM Access	X	% Using ATM	=	ATM Household Users
1976	24.3%		27.1%		6.6%
1978	43.2		36.9		16.7
1980	51.8		40.1		20.8
1981	69.8		45.5		31.8
1982	70.9		45.4		32.1
1983	75.4		44.7		33.7
1984	80.3		50.9		40.9
1985	81.4		46.1		37.5

Source: Unidex 1985

3. Age and educational level are the strongest determinants of ATM usage

-- Customers under age 49 are the most likely to use ATMs

-- College-educated customers use ATMs more frequently, too

C. Frequency in which ATM users conduct transactions at ATMs rises significantly

ATM Usage per Month

	Year		
Response	1985	1984	1983
Don't use	3.7%	8.0%	6.0%
Once a month or less	18.9	20.6	28.2
Two to five times	40.6	37.4	37.5
Six times or more	36.2	33.6	27.3
Not sure	0.7	0.3	0.8
No answer	0.0	0.1	0.3

Source: Unidex 1985

D. ATMs may also be a factor in acquiring new accounts

Importance of ATM Availability
When Selecting an Institution

	% of Respondents		
Appeal	1985	1984	1983
Definitely	47%	46%	44%
Probably	25	26	22
Slightly inclined	7	10	9
No difference	20	17	23
Not sure	1	1	2

Source: Unidex 1985

E. U.S. League's 1984 Savers Survey assesses acceptance of ATMs by customers of savings institutions

1. Access to ATMs is highest among younger savers

ATM Access by Age of Head of Household

Age	Responses	Yes	No
18-24	985	61.1%	38.9%
25-34	5,386	69.5	30.5
35-44	6,756	64.8	35.2
45-54	6,473	56.4	43.6
55-64	9,754	48.5	51.5
65+	16,150	44.4	55.6
Total	45,504	53.3%	46.7%

Source: U.S. League

2. Utilization of ATMs by savings institutions' savers lags behind Unidex findings

Frequency of Use of Automated Teller Machines

Age of Head of Household	Total with Access to ATMs	More Than Once a Week	Once a Week	Two or Three Times a Month	Less Than Twice a Month	Rarely or Never	Did Not Specify Frequency of Use
18-24	601	38.9%	22.5%	18.9%	3.4%	15.6%	0.6%
25-34	3,744	24.8	17.3	17.6	7.1	33.0	0.2
35-44	4,376	17.2	13.7	15.1	10.5	42.3	1.3
45-54	3,649	12.4	8.6	11.8	8.6	57.5	1.0
55-64	4,730	3.5	8.1	11.6	8.4	66.9	1.5
65 +	7,170	3.1	4.8	8.4	8.4	73.5	1.8
Total	24,270	11.4%	10.0%	12.4%	8.5%	56.5%	1.2%

Source: U.S. League

3. Younger savers cite ATMs as an important reason for choosing a savings institution

ATM Ranking

Age of Head of Household	Total Responses	ATM Availability
18-24	994	33.4%
25-34	5,401	22.4
35-44	6,872	15.4
45-54	6,578	10.6
55-64	10,060	6.1
65+	17,307	6.7
Total	47,212	10.7%

Source: U.S. League

4. Fewer savers rate ATM availability as the most important reason for choosing a savings institution

ATM Ranking

Age of Head of Household	Total Responses	Importance of ATMs
18-24	858	6.8%
25-34	4,338	2.8
35-44	5,212	2.6
45-54	5,321	0.8
55-64	7,963	0.3
65+	13,084	0.1
Total	36,776	1.1%

Source: U.S. League

5. Observations

-- Younger savers like ATMs

-- Market share of younger savers linked to ATM availability

IV. Factors Affecting ATM Transaction Volume Growth

A. Is the "33% barrier" impregnable?

1. ATM saturation beginning to plateau

2. Expansion slows when there is one ATM for every 5,000 residents

3. ATM saturation

ATM Saturation in the 20 Largest States

State	Population (in thousands)	Debit Cards (in thousands)	ATMs On-line	Residents Per ATM
California	25,622	14,500	6,000	4,270
New York	17,735	12,142	2,470	7,180
Texas	15,989	5,075	3,080	5,198
Pennsylvania	11,901	6,600	2,425	4,908
Illinois	11,511	2,549	1,490	7,741
Florida	10,976	4,100	2,020	5,134
Ohio	10,752	6,250	1,990	5,406
Michigan	9,075	3,580	2,520	3,598
New Jersey	7,515	2,200	750	9,967
North Carolina	6,165	2,000	805	7,658
Georgia	5,837	1,928	940	6,210
Massachusetts	5,798	2,924	2,040	2,847
Virginia	5,636	1,879	690	8,168
Indiana	5,498	1,879	820	6,729
Missouri	5,008	765	400	12,520
Wisconsin	4,764	1,800	600	7,993
Tennessee	4,717	1,100	500	9,434
Louisiana	4,462	950	450	9,916
Maryland	4,349	1,441	830	5,240
Washington	4,349	2,150	1,500	2,899
Total	177,659	75,812	32,320	5,497

Source: Bank Network News

B. ATM awareness is at an all-time high, yet ATM user growth is static

1. Population growing older

2. Current patterns of ATM usage may not be carried forward

C. Charging ATM users to use machines will deter usage

1. Unidex reports that 81% of the ATM users do not pay a fee to make a withdrawal

2. Unidex finds that a 30¢ charge per withdrawal drastically cuts usage

Effect of Charging 30¢ for ATM Withdrawal

Response	Percentage
No effect	20.3%
Use less often	18.9
Use much less	29.6
Stop using	31.3

Source: Unidex 1985

V. The Quest for ATM Profitability Remains Elusive

A. Reasons for installing ATMs include:

1. Increase market share

2. Retain market share

3. Customer convenience

4. Cost reduction

5. Merchant service

B. Cost reduction occurs primarily when teller expense is displaced

C. Checking account transactions represent the bulk of ATM volume

1. Banks hold 84% of the total number of checking accounts

2. Savings institutions and credit unions hold 16%

D. Savings institutions can't cost-justify an ATM transaction even if it is lower than the cost of each teller window transaction

1. Only a portion of the ATM transactions represent displaced teller workload

2. One ATM transaction does not displace one teller transaction

E. Typical savings institution has too few checking accounts to justify an ATM

1. Average number of checking accounts per savings institution branch is less than 1,000

2. ATM monthly transaction volume estimate is less than 1,000

3. ATM-7 Conference speakers indicated 10,000 to 12,000 ATM transactions are needed for an ATM to break even

F. ATM sharing bypasses capital outlays for ATMs, but sharing fees increase noninterest operating expenses because there are no offsetting cost reductions

1. Typical fees are:

Withdrawal	60¢
Deposit	70¢
Transfer	40¢
Inquiry	30¢

2. Costs are much higher when other fees, such as membership and cardholder base fees, and other charges are added in

VI. POS Activity May Be Overzealous

A. How payments for purchases are made today

1. Consumers use cash, checks or credit cards

2. Examples of merchant payments

Ways Consumers Make Personal Purchases
(in percentages)

Type of Retailer	Cash	Check	Bank Credit Card	Other Credit Card	Do Not Purchase
Food supermarkets	65.3	47.8			
Major department stores	50.9	33.8	13.2	26.8	
Furniture/appliance store	32.1	36.5	14.1		18.1
Discount department store	62.0	28.4	9.4		10.7
Men's or women's clothing store	51.9	35.6	15.0		7.7
Gasoline service station	64.4	8.9	4.0	25.5	7.6
Restaurant (out of town)	72.2	3.1	16.7		9.0
Restaurant (at home)	85.4	7.3	8.5		5.1
Airline tickets	32.2	20.3	16.3	6.1	30.4
Hotels/motels	46.2	12.8	23.8		18.5

Source: Federal Reserve Bank of Atlanta

B. Both retailers and bankers have an interest in POS

1. Bankers see reduced check volumes, better merchant relationships and greater control of the payment system

2. Retailers see faster sales transactions, reduced check and credit losses, and larger sales

C. POS displaces some of the current transactions

1. Madison Consulting projects

-- 7% reduction in cash transactions

-- 12% reduction in check transactions

-- 2% reduction in credit card transactions

2. In absolute numbers, POS displaces more cash transactions so cost may rise

D. Consumers not enamored with POS

1. Usage likely influenced by

   -- Price incentives and descentives

   -- Long-term comfortability with electronic banking methods

2. Other value-added services may improve the desirability of a debit card

E. Implications of POS for savings institutions

1. Big banks are behind the drive for POS

2. Banks seek POS funding through ATM networks

3. Few short-term benefits accrue to savings institutions

4. POS forces consolidation of ATM networks because it is capital intensive

5. Merchants will accept PINs in exchange for price concessions

6. Visa and Mastercard's roles diminish; they become network processors

7. Credit and debit features combined into a "one account" product

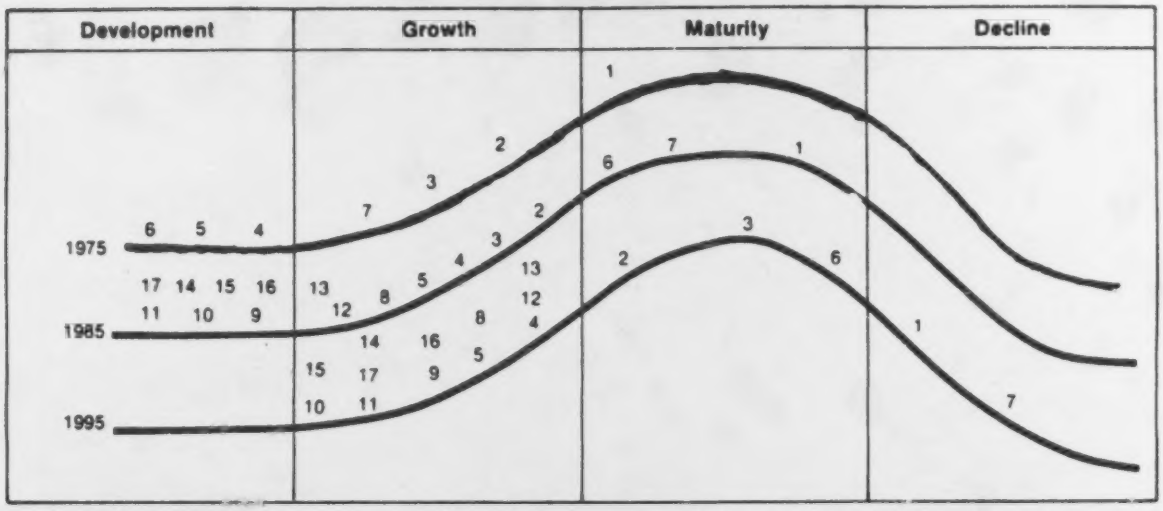
8. Small-size merchants may find savings institutions an attractive provider of corporate banking services

VII. Consumer Financial Service Industry Access Methods

A. Shared branches offer an exciting alternative for providing consumer financial services

B. Life cycle of alternative techniques to access financial account relationships

Distribution technologies and access mechanism life cycle for the consumer financial service industry*



1. *Main Offices* (Tellers). Teller population will decline 2% from 1985-1995. From 7.1 to 4.6 tellers per office by 1995.
2. *Branches.* Grew 4% per year from 1967-1981. Will grow at 2.8% through 1995.
3. *Checks.* (1977—9 Billion, 1985—10 Billion, 1995—12 Billion)
4. *Share Drafts/Now Accounts.*
5. *On Line Teller Terminals.* 4% unit sales growth through 1995.
6. *Automatic Teller Machines.* Projected 3.1% unit sales growth with replacement account for 80% of that growth by 1995.
7. *Credit Cards.* 4.4% per year decline through 1995. Down to 35% of plastic card market.
8. *Point-of-Sale* (integrated). 9% per year growth through 1995.
9. *Debit Cards/Enhanced Cards.* 18% per year growth through 1995, when they will equal 60% of plastic card market.
10. *Shared Branches.* 100,000 branches in 1983. Possibly 30-40% will be shared by 1995.
11. *Financial Service Centers.*
12. *Local Shared Networks.*
13. *Regional Shared Networks.* Approximately 50 networks in 1983 will drop due to merging and interconnecting.
14. *National Shared Networks.* Will evolve into a few competitors.
15. *Telephone Video Text.*
16. *Home Banking.* 385,000 personal computers in 1981. 20,000,000 by 1995, representing 1 of 5 households.
17. *Satellite Communications.* Presently COMSAT and Satellite Business Systems.

Source: Anthony Arnieri & Associates